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Statement of J.D.A. Morrow...

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1. Bituminous coal - U. S.

STATEMENT

of

J. D. A. MORROW

VICE-PRESIDENT *of the* NATIONAL COAL ASSOCIATION

Before the

COMMITTEE ON LABOR

of the

HOUSE OF REPRESENTATIVES

April 25, 1922

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April 25, 1922

MY name is J. D. A. Morrow. I am Vice-President of the National Coal Association. This is an organization of some 2,000 bituminous coal producers whose mines produce approximately 55 percent. of the total output of bituminous coal in the United States. Our membership does not include anthracite operators or wholesalers, jobbers or retailers. What I have to say, therefore, applies only to the bituminous coal producers; not to anthracite operators nor to wholesalers, jobbers or retailers.

The F. O. B. Mine Prices of Bituminous Coal

Prices Determined Solely By Competition

At the outset the committee should understand definitely that f. o. b. mine prices of bituminous coal are determined solely by competition in the open market. There are those who attempt to create the impression that prices at the mines are fixed in some manner by concerted action on the part of the coal producers. Such a statement convicts its author of ignorance of the production and market conditions of the bituminous coal industry. There are more than 7,000 separate producers, operating some 10,000 mines in 31 different states. There are millions of acres of coal land readily accessible to railways and highways upon which new mines can be opened with little expenditure of either time or money. The mines now open are able to supply far more coal than has been demanded by consumers at any time in the history of the country. The total capacity of the mines now open, as demonstrated by actual performance, is 776,000,000 tons of bituminous coal per year. The maximum production in the year 1918 was just under 580,000,000 tons.

This overcapacity above current consumptive demand is generally referred to as over-development of the industry. It is frequently criticized as a public evil and the operators are warned that the industry must remedy this condition because of the alleged burden it entails upon the consuming public. There is much loose thinking and general misunderstanding of the economic significance and effect of the excess productive capacity of our bituminous coal mines. Every competitive industry in which men are free to engage in business whenever they judge conditions are opportune is always over-developed. Whenever an American industry becomes under-developed we immediately say that it is monopolized. So long as an industry is over-developed then the fact of excess productive capacity ready and pressing for opportunity to serve buyers is a public safeguard against shortage of supply. For instance, there is over-development in the textile industry. The official Government reports constantly show a large number of idle spindles and looms. There is over-capacity of the iron and steel industry. Every official report on this industry shows a certain percentage of furnaces out of blast. There is over-development in the cement manufacturing industry, for there too official reports show a number of

mills constantly idle or operating on reduced time. Such over-development is true of all of our major manufacturing industries. The over-development of our agriculture is notorious and there is constant propaganda for the curtailment of acreage devoted to our chief crops.

We should frankly recognize the fact that over-development and excess productive capacity is a distinctive characteristic of a competitive industry and constitutes the safeguard of the public against shortage of supply and the exaction of extortionate prices by monopolistic control in such industries.

It is sometimes asserted that the consumer of coal must carry the financial burden of all this excess development. Any such statement is sheer nonsense. In occasional periods of high-priced coal, such as prevailed in the Summer of 1920, anxious consumers bidding against each other will pay prices high enough to yield a profit to the operator of a high-cost bituminous coal mine, but in normal times these mines cannot hope to work at a profit. So long as the consumer is free to buy coal from hundreds of low cost mines with ample capacity to supply the country, he will not pay the operator of a high-cost mine a cent more than he must pay the low-cost producer, unless he is a fool.

No operator deliberately intends to open a mine where the cost of producing the coal will be above the price that he can expect to obtain for the coal against the competition of existing low cost mines, but it is not always possible to foresee precisely the production cost in coal mining and a certain percentage of high-cost mines are thus unfortunately developed. It is the constant opening of lower cost mines which prevents these higher cost producers from making the public pay for their mistakes in judgment. Therefore, while it is entirely true that the over-capacity in the bituminous coal industry constitutes a severe burden upon the coal operators, it does not constitute a burden upon the coal consuming public, but is the safeguard of the public against an insufficiency of supply with consequent inconvenience and disturbance.

With the large number of scattered independent producers, with the constant excess capacity seeking a market, and with the readiness with which new mines can promptly be opened, no effective combination of operators to restrict the production of bituminous coal or to fix prices would be possible even if the Sherman law were repealed and such combinations were permitted. The fact that prices in this industry are determined by competition is well recognized by every authority who has given the matter intelligent study. Thus, Senator Reed, at the conclusion of several weeks' exhaustive hearings in the Winter of 1921, and after much research on his part, said in a speech in the Senate on June 28, 1921:

"It is asserted that the great coal producers are, and have been for years, combined together to charge extortionate prices for coal when produced at the mouth of the mine. Accordingly it is argued that the Government must take possession or control over the mines in order to protect the people from the machinations of these evil conspirators.

No Monopoly of Bituminous Coal

"Both the statement of fact and the conclusion based thereon are refuted by the testimony taken by the committee. At the end of the exhaustive hearings not a scrap of evidence had been given tending to show a combination between the great mine operators. Upon the contrary, it was proven that there are in the United States over 11,000 large coal mines; that these mines are controlled by over 7,000 operators. It was also shown that coal in many localities juts from the sides of the hills and can be worked by farmers or by miners employing the pick and shovel. The coal from this latter class of mines comes into the market as soon as there is a coal shortage and the price is materially advanced. Deposits of the character I am now discussing are scattered throughout the vast coal areas which, as has been shown, exist in 31 of the States of the Union. The evidence before the committee demonstrated that during the coal shortage of 1920 there came into existence within one year's time along the line of the Pennsylvania Railroad in two states over 1,000 new mines.

"According to the testimony the mines of the country were increased from 5,776 in the year 1913, to over 11,000 mines in the year 1920.

"The conclusions seem irresistible:

"(a) That the supply of coal is practically inexhaustible; that it is stored in the ground and will remain there free from destruction until it is removed by man and transported to the market.

"(b) What has been said of coal is true of no other product. The oil fields are apparently being rapidly exhausted; there is seemingly a limit to the amount of ores readily accessible to the miner's pick; but whatever the facts may be with reference to mineral deposits it is certainly true that of none of the things produced by man can it be declared that a time of shortage or famine may not come. To illustrate, no matter how much wheat is sown the crop may be a failure; corn and all cereals are subject to seasonal disasters; live stock may be swept away by a plague; none of these things can be stored or kept for a great length of time.

"(c) Bituminous coal, according to the evidence, has not been monopolized. And, as I have said, because of its wide distribution and widely scattered ownership, it will be very difficult, if not impossible, to ever bring it within monopolistic control.

"We have, then, a condition which only demands that the coal shall be taken from the ground and delivered to the people. If that is done at a fair and reasonable price, the problem is solved." (Cong. Record for July 26, 1921, page 4619.)

On pages 2 and 3 in his minority report, Senator Gay, of the Committee on Reconstruction and Production of the Senate (Sen. Report 666, Part 2) on February 17, 1921, said:

"The evidence before the committee shows without question that the bituminous mines of the United States now in operation are equipped and prepared to mine and produce a total tonnage largely in excess of total requirements and that the committee appears to have found no evidence which to my mind is proof of any combination among the producers of bituminous coal, either to maintain prices or restrict production. It seems evident that with the large number of such producers and the numerous areas in which such coal is produced that very active competition prevails in the marketing of bituminous coal, and if sufficient transportation is available to keep current shipments up to current needs this competition in the open market will keep prices at a reasonable level."

William Hard, a recognized authority on economic questions and one of the keenest investigators of such subjects in the United States, in an article on the present strike in the Survey Graphic for April, 1922, said:

"In the bituminous part of the coal industry geology has enforced the Sherman Anti-Trust Law. The deposits of bituminous coal are so scattered and the area containing them is so enormous in the total of its scattered hillsides and prairies that combination and consolidation under legal disapproval have not been able, and give no signs of ever being able, to proceed to any stage worthy of being called a stabilization of the industry.

"The competitive quality of the bituminous coal industry is one of its most outstanding qualities. Even a member of the "farm bloc," believing sternly in competition in the coal industry, ought to be satisfied with the amount of competition generally and normally exhibited by the coal industry's bituminous section, which is its big section, its dominant section, its relatively permanent section, destined to be producing coal in unabated volume when the anthracite section consists of exhausted and abandoned caves."

Scores of other authorities can be cited in conclusive statements, but the facts are too obvious to necessitate their inclusion.

Thus any discussion of price conditions at the bituminous coal mines, if it is to proceed upon the basis of fact, must begin with a clear understanding that the mining of bituminous coal is a highly competitive industry and that mine prices result from the play of competitive forces in the open market. It follows, therefore, that the individual operator, or groups of such operators, are just as powerless to control the market price of coal as a Kansas farmer, or group of farmers, is powerless to control the market price of wheat.

Prices Tend to the Level of the Production Cost of the Most Economic Mines

It should also be understood that the f. o. b. mine prices in this open competitive market naturally and inevitably gravitate to the level of production cost in those mines enjoying the most fortunate conditions for the production of coal at low cost. In other words, the market price tends to be established by the low cost production section of the industry and not by the higher cost producing mines. This is a well recognized law of economics in the case of any commodity which is produced and shipped to market under the conditions which prevail in this industry. It is developed in detail in all

standard works on economics; perhaps it is most clearly and concisely stated in the "Principles of Political Emonomy" by Charles Gide, in the following words: "In this case" (the case of goods freely produced) "the general market price is not determined by the maximum cost of production, but by the minimum cost of production"; and again on Page 627: "The minimum cost of production sooner or later regulates the rate of profit."

The low level of bituminous coal prices at the mines was traditional before the war and prices have always been but little above the production cost of the better mines except when shipments have been interfered with. During 1917 and 1918 they were interfered with by the pressure of other traffic upon the railways and by action of the Government itself. In 1920 they were interfered with by the outlaw switchmen's strike, which disrupted transportation conditions throughout the Eastern and Central portions of the United States, particularly on the great coal-carrying roads. Then the bidding of coal buyers raised prices at the mines, precisely as similar bidding raises the price of cotton, wheat, corn or any other staple commodity.

The Quotation of Mine Prices for Bituminous Coal

Market prices for bituminous coal are not fixed by quotations in two or three great primary markets for a single standard grade, as in the case of wheat at Chicago, Minneapolis and Kansas City, cotton at New Orleans, Liverpool and New York, or of copper at New York and London. Different mining regions produce different kinds of coal, varying in many characteristics of quality. Many of these coals or grades are especially fitted for a particular use to which other coals or other grades of the same coal are not adapted. Again, different coal producing districts serve particular sections of the United States with coal, and in each such market many districts compete with each other with their distinctive coals. After the coal is mined and brought to the surface it may be sized, cleaned and prepared in different ways by the producer in order to fit it for the particular needs of the customer to whom it will be sold.

Accordingly, in the marketing of bituminous coal we do not have a simple, single basic price for the United States, but we have a great variety of f. o. b. mine prices in different parts of the country reflecting local conditions of demand and supply, and distinguishing different grades, qualities, sizes and preparation of coal.

Thus, here in Washington a dozen different kinds of bituminous coal are sold currently, not at one price but at different prices which represent their relative values for different uses. In New England more than twenty different kinds of bituminous coal are quoted and sold in competition with each other under a wide range of f. o. b. mine prices—and of delivered prices. In the Chicago market between fifty and sixty kinds or sizes of bituminous coal are sold constantly.

In the Chicago Journal of Commerce for March 29, 1922, on page 10, more than thirty different bituminous coal quotations are published and many of these quotations include a number of different sizes under a spread of quotations. Thus, Southern Illinois prepared sizes are quoted at from $3.25 to $3.65, indicating a slightly different price for each of the four or five different sizes customarily included in that designation. Here is Belleville, Illinois, coal selling in competition with the coal just mentioned, quoted at from $1.25 for screenings to $3.00 per ton for six-inch lump. On the same day Northern Illinois coals were quoted at from $2.25 per ton for screenings to $4.50 per ton for lump, Pocahontas screenings were quoted at $1.00 and prepared sizes at $2.75 per ton. The same page for that single market of Chicago gives many more similar illustrations. Thus throughout the United States we have a great diversity of f. o. b. mine prices resulting from the play of competitive forces under a variety of local conditions of production and consumption.

Now, with this variety of prices it is necessary to be careful in statements about the price of coal at the mines. The foregoing quotations indicate the wide range in prices for different sizes of coal from the same mine. This fact must be clearly understood to avoid a misunderstanding of coal prices f. o. b. the mines. Referring again to this same journal, here is coal from the same field of Southern Illinois—it may well be from the same mine—ranging from $3.65 per ton for the most highly prepared, finest quality of coal produced there, down to $1.85 per ton at the other extreme for the screenings, which are left from the preparation of the better grades of coal and which

represent the least desirable fuel produced by the mines. Thus, it is necessary in quoting these prices to specify clearly the kind or size of coal referred to.

Statistics of Mine Prices

With this variety of market prices, it is customary, in giving statistics of mine prices, to reduce all prices to the basis of mine run coal, that is, the basis of the coal just as it comes to the surface from underground without any screening, sizing, preparing or cleaning further than is given it in its initial loading into the mine wagons underground. A large part of the coal which is produced in the United States is sold in just that form and the mine run quotation is used as the basic quotation, and annual and monthly statistics of prices by Government agencies and statisticians within the industry are customarily reduced to that basis and so published.

The average value per net ton of bituminous coal at the mines, as reported by the United States Geological Survey for the calendar years from 1910 to 1920, inclusive, is as follows:

1910	$1.12
1911	1.11
1912	1.15
1913	1.18
1914	1.17
1915	1.13
1916	1.32
1917	2.26
1918	2.58
1919	2.49
1920	3.73
1921	3.04

I have added to this table the estimate for the year 1921, prepared by the National Coal Association for submission to the Interstate Commerce Commission in its recent inquiry into freight rates.

With regard to this 1921 figure of $3.04 per ton, I should explain that the calendar year does not correspond precisely to the coal year. Most coal contracts run from April 1 to March 31. Accordingly, in taking the calendar year 1921 we had a lap-over through January, February and March of higher prices on contracts which had been made during the year 1920 and which affected the averages. To give the committee a more accurate view of the price level for 1921, I submit the average prices realized by the operators for the year 1921, month by month. These figures are obtained from reports to the National Coal Association from 654 operating companies whose mines produced over 133,000,000 tons of coal in the year, and may be taken as fairly representative of the average price realized by the industry.

Month	Average Per Ton
January	$3.64
February	3.49
March	3.42
April	3.19
May	3.06
June	2.96
July	2.92
August	2.88
September	2.79
October	2.73
November	2.67
December	2.56
For the year	3.04

It will be observed that throughout the year the average amount realized by the operator at the mine declined month by month. For the month of January, 1921, the average amount received per ton was $3.64. At the end of the year the average for the month of December was $2.56 per ton, showing a total decline in prices of $1.08 per ton during the year. The average

shown in the table as realized by the operators month by month was constantly above the current market level of "spot" coal prices in the United States. Throughout the year prices in the open market steadily declined, but a considerable quantity of the coal shipped each month was paid for at prices named in contracts made earlier in the year, or even in the previous year, at the higher level of prices then prevailing. The average amount realized by the operators on such shipments, of course, raised the average for their total shipments above the prices at which they were currently selling their surplus production in the open market.

In order that you may appreciate more clearly the market prices for mine run coal f. o. b. the mines, I wish to put into the record here the average of current quotations for bituminous coal in the open market, as shown by the index of bituminous coal prices published in Coal Age. This paper is one of the recognized coal trade journals and is edited by C. E. Lesher, who was for many years the coal statistician of the United States Geological Survey. His price index is generally recognized in the trade as being as accurate a representation of general price levels and changes in the industry as it is possible to obtain.

Coal Age Index Spot Prices

1921

January	4	130	$3.34
	11	120	3.08
	18	114	2.93
	25	109	2.80
Feb.	1	103	2.65
	8	102	2.62
	15	99	2.54
	22	98	2.52
March	1	101	2.60
	8	100	2.57
	15	98	2.52
	22	99	2.54
	29	101	2.60
Apr.	5	101	2.60
	12	102	2.62
	19	103	2.65
	26	103	2.65
May	3	104	2.67
	10	104	2.67
	17	103	2.65
	24	102	2.62
	31	100	2.57
June	7	96	2.47
	14	95	2.44
	21	92	2.36
	28	91	2.34
July	5	89	2.29
	12	90	2.31
	19	89	2.29
	25	89	2.29
Aug.	2	90	2.31
	9	90	2.31
	16	92	2.36
	23	90	2.31
	30	90	2.31
Sept.	6	91	2.34
	13	91	2.34
	22	91	2.34
	27	90	2.31
Oct.	3	88	2.26
	10	89	2.29
	17	90	2.31
	24	93	2.39
	31	91	2.34

Nov.	7	91	2.34
	14	91	2.34
	21	88	2.26
	28	86	2.21
Dec.	5	84	2.16
	12	83	2.13
	19	83	2.13
	26	84	2.16

When the foregoing average prices per ton f. o. b. the mines for run of mine coal are compared with the average amount realized by the 654 operators reporting to the National Coal Association for the year 1921, it appears that for the month of January the average realized by the producers was $3.64 per ton as compared with a current market level declining during the month from $3.34 to $2.80 per ton. Similarly, at the end of the year while the average realized by the producers for the month of December was $2.56 per ton, the current level of spot prices in the open market for the month fluctuated between $2.13 and $2.16 per ton. As already explained, this difference is due to the fact that the total amount realized by the producers included tonnage previously sold under contracts which had been closed on the higher level of prices previously prevailing.

The general level of prices in recent weeks is indicated by the following average spot prices f. o. b. the mines on a mine run basis, as reported by Coal Age and covered in its index numbers of coal prices.

1922

February	6	$2.21
	13	2.22
	20	2.20
	27	2.18
March	6	2.17
	13	2.16
	20	2.10
	27	2.05
April	3	2.06
	10	2.19
	17	2.23

It will be noted that the lowest figure reported was for the last week of March, the week just prior to the strike, when the average was $2.05 per ton. For the week of April 17, 1922, the last week for which quotations have been published by Coal Age, the average was $2.23 per ton for run of mine coal.

The F. O. B. Mine Cost of Producing Bituminous Coal

The committee, of course, understands that the physical conditions of coal production are widely dissimilar in different fields. In some localities, in the Southern Appalachians for instance, coal is mined which is less than three feet in thickness. In Wyoming and Utah coal veins seventeen feet and more in thickness are mined. With all sorts of conditions as to roof, bottom, water in the mines, gas, pitch of the seams, hardness of the coal, partings of slate or dirt in the seams, and so on, there is of necessity a wide variation in production costs. The figures on costs that I shall submit are averages for the United States as a whole and may be used in comparison with the average prices of bituminous coal for the United States as a whole, which I have just given you.

Before taking up the statistics let me explain briefly what chief items go to make up mine cost. The largest single item of expense is labor, as represented by the pay-roll, which accounts for 65 to 70 percent. of the total cost of production. Then there is the cost of supplies, such as pipes, valves, steel rails, copper wire, parts of mine cars, mining machines, engines, fans, motors, etc., posts and timber, track ties, oil, grease, explosives, boiler fuel or rented power, and many others. There is also the depreciation of the investment in mine wagons, tracks, haulage ways, fans, ventilating equipment, pumps, pipe, and the general investment under ground and on top the surface at the mine. There must also be included in the cost of production a proper allowance for the depletion of the coal itself. When an operator opens a coal mine he buys 20 to 50 years' supply of raw material for his business in advance, namely: the

coal in the ground. When he has mined out that coal he will have nothing left of any commercial value, and to get back merely the money he paid for the coal in the ground, he must pay back to himself a certain amount per ton as each ton is mined out so that when it is all gone he will have his original capital again. Please note that there is no element of profit in that process; it is merely the restoration of the capital originally invested. This amount per ton, which is necessarily added to the production cost, is called depletion. If the operator, instead of buying his coal in the ground has leased it, then he must pay a certain royalty per ton. The operator must also pay for the usual items of overhead, as in the management of any business. There is the rent of offices, telephone and telegraph bills, lawyers fees, the salaries and traveling expenses of its officers, the sales expense of its sales force, if it sells its own coal, the cost of stationery and office supplies, insurance, taxes, and many other items of expense necessary to the management of any business. All of these items go to make up the cost of producing coal.

It is a popular error to assume that the amount paid the pick miner or the loader for loading a mine wagon under ground represents the total cost of producing bituminous coal. This is analogous to claiming that the amount paid to the engineer, fireman, brakeman and trainmen on the Congressional Limited between here and New York represents the cost of operating that train. In order that the committee may have a clearer appreciation of the many items that go to make up the cost of producing bituminous coal besides the amount paid the miner or the loader, I have included in this statement a compilation of the different payments which are made in the Kansas coal mining field and which are typical of those made in all mining districts, although some of the mining terms used are different in other districts. I shall not burden the committee with a recital of these details shown by the compilation. It speaks eloquently for itself and indicates how serious an error it is to assume that the payment to the loader or miner is all there is to the cost of mining coal.

FACTS ABOUT COST OF COAL AT MINE

Prepared by the Southwestern Interstate Coal Operators Association

To those who say—or think—that the wage paid the coal miner represents the cost per ton of coal:

The cost of production is made up of these 200 or more items which the Operator has to pay to put the ton of coal on railroad cars ready for shipment. The wage of the Miner is just one item out of the many

INVESTMENT:

Cost of Land
Cost of Equipment, Buildings, Machinery, Live Stock, Etc.
Cost of Railroad Spurs and Loading Tracks
Cost of Development to reach Coal
Cost of Management

LABOR ABOVE GROUND

Blacksmiths
Blacksmith Helper
Boiler Washers
Carers—Top
Camp Inspector
Carpenters
Carpenter Helpers
Car Couplers
Car Droppers
Car Oilers—men
Car Oilers—boys
Car Repairers
Car Trimmers—men
Car Trimmers—boys
Dumpers
Dumper Helpers
Electrician
Electrician Helpers
Engineers—Box car loaders
Engineers—Power House
Engineers—Hoist
Firemen—Power House
Firemen—Helpers
First Aid Men
Inspectors—Coal
Laborers—Boiler House
Laborers—General Work
Lampmen—Electric
Lampmen—Helpers
Machine Boss
Machinists
Machinist Helpers
Masons
Mason Helpers
Mine Clerk
Mine Clerk Assistant
Motormen
Nippers
Painters
Pumpmen
Pushers
Sandmen
Sanitary Inspectors
Slate Pickers—men
Slate Pickers—boys
Stable Boss
Stable Boss Helper
Spraggers
Sub-station men
Superintendent
Supply Man
Teamsters
Tipple Bosses
Tipple Men
Tipple Boys
Tool Dressers
Trackmen
Trackmen Helpers
Water Tenders
Water Haulers
Watchmen—day
Watchmen—night
Weighman—pit cars
Weighman—R. R. cars

LABOR UNDERGROUND

Brattiecmen
Brattiecmen Helpers
Cagers—bottom
Cagers—bottom helpers
Car Couplers—men
Car Couplers—boys
Car Droppers
Car Haulers—men
Car Haulers—boys
Car Oilers
Cleaners—roads
Concrete men
Concrete Helpers
Drill runners
Driver bosses
Drivers
Drum Runners
Engineers—Electric Hoist
Engineers Steam Hoist
Engineers—Surveyors
Fire Bosses

Gobbers—rock
Linemen
Linemen Helpers
Loaders—after machines
Machine Runners
Machine Runner helpers
Masons
Mason Helpers
Miners
Motormen
Night Bosses
Nippers
Parting tenders—men
Parting tenders—boys
Pipemen—drainage
Pit Bosses
Pumpmen
Rockmen
Rockmen Helpers
Rollermen
Rustlers
Shot Firers
Shot Firer Helpers
Shot Inspectors
Sprinklers
Spraggers
Sub-station men
Timber Bosses
Timbermen
Timbermen helpers
Track benders
Trackmen
Trackmen Helpers
Trappers
Trip Riders
Water Bailers
Rope Riders

MATERIAL AND SUPPLIES

Black Oil
Blacksmith supplies
Brattice cloth
Car Door Boards
Cement
Coal for boilers
Electrical Supplies
Electricity
First Aid Apparatus
Harness, etc.
Hay and grain for mules
Lubricating oil
Lumber
Nails
Pit car repairs
Props
Rail—heavy
Rail—light
Repairs for machinery
Rescue apparatus
Rollers
Sand
Sprags
Telephones
Ties
Track spikes
Track bolts
Wire rope, etc., etc.
Waste, etc., etc., etc., etc., etc.

GENERAL EXPENSE

Officers' Salaries and Expenses
Other Office Salaries
Rent and Miscellaneous Office Expense
Legal Expense
Doctor and Hospital Expense for Employes

SELLING EXPENSE

Sales Officers' Salaries and Expense
Road Salesmen's Salaries and Expense
Other Office Salaries
Rent and other office expense
Advertising; Commissions; Misc.

OTHER OPERATING CHARGES

Royalty
Depletion Reserve
Depreciation Reserve
Insurance—fire, boiler, etc.
Insurance—compensation for employes
Taxes—State and county
Floods
Mine Squeezes
Mine Fires
Mine Explosions

STRIKES

During the year 1921 the total cost of producing bituminous coal, as shown by the reports to the National Coal Association by the 654 companies already mentioned, was $2.94. According to similar reports to the National Coal Association, submitted to the Committee on Manufactures of the United States Senate for the year 1920, the average production cost for that year was $2.87 per net ton. For the year 1919, from similar sources of information, the aerage cost was $2.38 per ton. For 1918, according to Dr. H. A. Garfield, United States Fuel Administrator, the average cost was $2.15 per ton f. o. b. the mines. For previous years information is not available.

The detailed items which went to make up the average cost of $2.94 per ton for the year 1921 are shown by the following table:

	Cost per ton	Percent of Cost per ton
Labor	$1.992	67.77
Supplies	.370	12.57
Other Operating Charges	.318	10.82
General Expense	.174	5.91
Selling Expense	.086	2.93
Total	$2.94	100.00

From this table it appears that labor cost amounted to 67.8%; the cost of supplies, 12.6%; royalties, depletion, depreciation, insurance and taxes, not including Federal income and excess profits taxes, 10.8%; and general overhead expense, including the salaries of officers and office employes and legal expense, 5.9%, while selling expense was 2.9%.

The Profits of the Bituminous Coal Producers

It is doubtful if there is any feature of the production of bituminous coal which has been so beclouded by wild misstatements as the profits made by the operating companies.

It is not so long since a former Secretary of the Treasury gave the people

of this country the impression that the bituminous coal producers made 2,000% on the capital invested in the industry in the year 1917. According to the United States Bureau of the Census, the total amount invested in the bituminous coal mines of the United States in 1919 was $1,940,000,000. The investment in 1917 must have been but little less. To make 2,000% profit on any such investment would have necessitated making a profit of over $70.00 on every ton of the 552,000,000 tons of bituminous coal produced in the year 1917. The mere statement of that figure sufficiently shows the absurdity of any statement giving any such impression. How little possible ground there was for such a statement is evident in the light of the report of the United States Geological Survey showing that the average price obtained by the operators for their total output in 1917 was only $2.26 per ton. That was the amount received, and out of that amount all costs of production and sales had to be met before any profit could be figured.

In his testimony before this committee Mr. John L. Lewis asserted that profiteering and not wages had been the cause of high coal prices. He presented a mass of partial figures covering admittedly selected companies, and by then assuming that the whole industry enjoyed profits similar to those of these particularly fortunate selected companies, he advanced conclusions as to the profits of the producers as a whole which are so exaggerated and so grossly misleading as to require specific comment. He first refers to the showing made by former Secretary of the Treasury McAdoo in Senate document No. 259, covering the profits of 392 coal operators for the year 1917. In his letter of transmittal, Secretary McAdoo himself called specific attention to the fact that he had included only those corporations which in the calendar year 1917 earned 15% or more on their capital stock. Out of some 5,000 coal operators in the United States in 1917 Mr. McAdoo's report covers only 392, leaving more than 4,600 companies which, by his own statement, earned less than 15% on their capital stock. Mr. Lewis cites instances, as shown in this report of Secretary McAdoo, where coal operators earned over 1,000% on their capital stock. Let us examine some of these instances. He must have included company No. 280 in Mr. McAdoo's report, showing a profit of over 1100% on its capital stock of $1,800. It would be a huge coal company which could operate on a capital of $1,800. As a matter of fact, the same report shows an actual investment in that mining property of over $177,000.00, which is the actual amount upon which any judgment of relative profit must be based. The company coded as No. 132 in Mr. McAdoo's statement reported a capital stock of $10,000.00, on which it showed a profit of over 3,000%. Doubtless this is also one of Mr. Lewis' chosen examples; but why did he not go on and inform the committee that the same report showed that this company had an actual invested capital of over $569,000.00, and that, therefore, its capital stock was a mere nominal capitalization and any percentage of profit figured thereon was grossly misleading. Take code No. 162, on page 132, which also shows an invested capital of $10,000 and the apparently mountainous profit of over 5,000%. It is strange that Mr. Lewis did not advise the committee that this company had an actual invested capital of $1,274,000.00.

Mr. Lewis cites Mr. David Wing, former chief of the coal section of the Federal Trade Commission, as authority for the statement that "the return on investment made by the operators, Mr. Wing estimated to have run as high as 357% in 1920." If that estimate were correct, it would have been necessary for the total production of bituminous coal in the year 1920 to have sold at an average price f. o. b. the mines of $15.40 per ton. We have the report of the Geological Survey to the effect that the total average value realized by the operators f. o. b. the mines for their output in that year was only $3.73.

Mr. Lewis quotes the financial manuals with respect to the net annual profits of 11 bituminous coal companies for the year 1917 in comparison with prior years, and derives his conclusion that the coal operators made more than a billion dollars in profits from 1916 to 1919, inclusive, upon the showing of 11 companies out of 5,000. Any conclusion deduced from such partial information in face of the fact that relatively complete figures from official sources were available to Mr. Lewis, simply indicates a desire on his part rather to "make a case" than to give the facts fairly and fully to the committee and the public.

I have prepared for submission to the committee a brief tabulation showing the average price received per net ton, the average cost per ton and the margin per ton for the years 1918, 1919, 1920 and 1921.

		Number of operating companies	Production (Net Tons)	Average price per net ton	Average cost per net ton	Margin per net ton (a)
1918	(b).....	2,483	496,960,342	$2.61	$2.15	.46
1919	(c).....	548	128,140,333	2.56	2.38	.18
1920	(a).....	399	117,251,310	3.58	2.87	.71
1921	(c).....	654	133,398,508	3.04	2.94	.10

(a) Margin is not the same as profit. From the margin must be paid all Federal Income and Excess Profits Taxes and Interest on Bonds and Borrowed Money.
(b) From reports of U. S. Fuel Administration.
(c) From reports collected from its members by the National Coal Association. Selling expense is included in cost.

This table shows the source of the information from which the data are derived. It indicates an average margin per net ton before any interest has been paid on funded debt or before any Federal taxes have been paid, of 46 cents per ton in 1918, 18 cents in 1919, 71 cents in 1920 and 10 cents in 1921. This average margin of 10 cents per ton for 1921, out of which interest and Federal taxes must be paid, really means that the industry as a whole operated at a loss. If these four years are taken together they show an average margin for the four years of 36¼ cents per ton. On the basis of approximately $2,000,000,000 investment in the industry, as shown by the report of the United States Census Bureau for the year 1921, this would give an average margin of 9% for the industry for these four years, before interest or Federal taxes were paid.

These figures are borne out by the official reports of the United States Treasury Department. On page 41 of the report of the United States Bituminous Coal Commission is a statement prepared by the United States Treasury Department for the Commission showing that for the year 1918 the average percent. of net income to invested capital, after deducting the Federal taxes, for bituminous coal operators was 9.72. Consideration of the profits of the operators must also take into account the proportion of the industry which did not earn a profit. Table 11, on page 94 of the report of the United States Internal Revenue Bureau, entitled "Statistics of income covering the calendar year 1918," shows that 970 coal companies in that year reported no net incomes at all.

For the year 1919 the report of the Internal Revenue Bureau, entitled "Statistics of income," on page 18, shows that coal mining corporations earned 8.41% in that year on the total invested capital. It shows, further, that 1,647 corporations reported no net income at all. While these figures include both anthracite and bituminous, the greater number of corporations must of necessity be bituminous mining corporations, and, therefore, these figures may be taken as fairly applicable to this industry.

In view of the hazardous character of investment in a coal mine, subject to strikes, railroad disabilities, mine fires, floods, explosions, squeezes and adverse geological conditions, a mere investment return of 5 or 6 percent. would be a wholly inadequate compensation for the risk entailed in a coal mining investment. A much larger percentage of return would be fully justified as a means of enabling the industry to obtain the capital necessary to its sound development and to the proper safeguarding of life and property in the mines.

Mr. Lewis makes the definite charge that enormous profits of the operators are more responsible for high prices to the consumer than increase in wages to the mine workers. While it is true that some individual coal companies show comparatively large profits, the evidence submitted to this committee conclusively shows that the bituminous coal producers as a whole did not make the huge profits claimed by Mr. Lewis. The simple truth is that abnormal market conditions incident to the war enabled coal mine operators to enjoy larger profits than they enjoyed under previous circumstances, precisely as did corporations engaged in every other line of industry; and it is equally true that these same abnormal conditions enabled the employes at the mines also to enjoy a higher scale of wages and greater earnings than they had ever had before. We are now in the process of readjustment. The evidence before this committee conclusively shows that the profits of the coal producers have long since returned to that condition of sub-normalcy which is

generally recognized to be characteristic of this industry, but the wages of the miners in all the union fields have yet to make the slightest move toward alignment with the readjustment which has taken place in industry generally throughout the United States.

The Distribution of Bituminous Coal

How Bituminous Coal is Marketed

Of the total output of bituminous coal about 12% annually is marketed through retail coal dealers. Of the remaining 88% nearly 80% moves in carload lots from the mine to the consumer, and the remaining 8% is either consumed at the mine or is made into coke at the mine. Of the 89% which is shipped away from the mines probably two-thirds is marketed by the selling organizations of the producing companies, although no accurate figures are available on this subject. The other one-third is sold through wholesalers or jobbers. The expense of selling bituminous coal at wholesale was found by the United States Fuel Administration to vary from 6 or 8 cents per ton to 25 or 30 cents per ton, according to the service required in the marketing of this coal in different parts of the country, and the Fuel Administration fixed 15 cents per ton as the general commission for wholesalers and jobbers of bituminous coal. Statements have been made to this committee that secret selling agencies are utilized by the producing companies in the marketing of their coal to obtain additional prices in the markets. Many of the producing companies have their own sales departments and others have selling agencies in which they may have some financial interest or with which they have a contract for the disposition of their coal, but there is no secrecy connected with these arrangements. They are advertised in every coal trade journal. Nor can an operator obtain any particular advantage in a competitive market by any such arrangement, because if he attempts to pyramid prices through a number of different concerns he simply permits some competitor to undersell him and take his business away.

There is also a good deal of popular misunderstanding of the service performed by the wholesaler and jobber. The larger companies maintain their own sales organizations either in connection with the operating company or through some affiliated selling company. Hundreds of smaller operators do not have enough business to permit the expense per ton which they would incur in attempting to maintain an organization to market their own output. The coal wholesaler or jobber arranges to market the production of a number of these smaller producers whose combined output, taken as a whole, will justify the expense to the wholesaler in maintaining an organization to keep in touch with consumers throughout the market territory reached by such producers, advertise their coal, obtain orders for them, investigate the credit standing of prospective buyers and even finance, in part, the operation of the mines from time to time when the operator needs such assistance. On the other hand, the wholesaler performs a definite service to the small consumer who may not be in touch with operators direct or the conditions of whose business require the particular kind of attention that a wholesale coal agency, with a great variety of coals to sell, can give him.

The committee should keep the fact clearly in mind that whether this selling service is performed by the operating company itself through its own sales force or through its affiliated selling company or through some wholesaler or jobber, competition among all these different classes of wholesalers of coal is certain to distribute the coal to the consumer in this sales service at a very low cost. It is true that in highly abnormal markets speculators engage in the purchase and sale of coal just as they engage in the purchase and sale of any other commodity under similar conditions, but, since the market for bituminous coal is essentially a competitive market and prices therein are determined by conditions of supply and demand, it necessarily follows that such speculators do not make the coal market. They simply take advantage of the excited bidding or offering of buyers or sellers and gamble on their own ability to obtain a profit in the process.

Consumption of Different Classes of Users.

The tonnage of coal consumed by different classes of users in the United States in a year of ordinary business activity is indicated by the following table:

Railroads	140,000,000
Industries, other than steel and coke	120,000,000
Steel plants	30,000,000
Coke:	
Beehive	32,000,000
By-product	43,000,000
Public Utilities:	
Electric	31,500,000
Coal Gas	4,500,000
Domestic Consumers	57,000,000
Coal Mine Fuel	11,000,000
Exports:	
Canada and Mexico	14,000,000
Sea Borne	9,000,000
Bunker:	
Foreign Trade, Coastwise and Lake	8,000,000
Total	500,000,000

Seasonal Variations in the Bituminous Coal Industry

The bituminous coal industry is popularly considered to be a seasonal industry. On the contrary, considered as a whole, the production of bituminous coal is very steady throughout the year. The following table shows, from the reports to the United States Geological Survey, the average production for the six Summer months from April to September, as compared with the production for the Winter half year from October to March, inclusive:

Monthly Production of Bituminous Coal in Summer and Winter Months
1913-1921 (In net tons)

	Monthly Average April-September	Monthly Average October-March
1913	38,442,000	41,297,000
1914	32,441,000	38,009,000
1915	34,927,000	38,844,000
1916	38,847,000	44,906,000
1917	45,756,000	46,209,000
1918	51,481,000	45,083,000
1919	39,958,000	36,386,000
1920	44,189,000	48,571,000
1921	32,471,000	35,373,000
Monthly average—		
1913-1921	39,835,000	41,635,000
Per Cent.	48.9	51.1
Monthly Average—		
1913-1921 (1919 omitted)	39,820,000	42,291,000
Per Cent.	48.5	51.5

This table shows for the nine years from 1913 to 1921, inclusive, that 48.9% of the total production of bituminous coal was produced in the six Summer months and 51.1% in the six Winter months. If the year 1919 should be omitted on account of the protracted strike in November and December of that year, the average for the other eight years is 48.5% for the six Summer months against 51.5% in the Winter months. This doubtless reveals a much steadier national flow of coal to market than is popularly presumed to exist. In fact, there are very few of the great industries of the United States which approach such regularity of operation. The bituminous coal mining industry, taken as a whole, is not for a moment to be considered in the class of seasonal industries, such as clothing manufacture, canning, Portland cement manufacture, the construction and building trades and scores of others.

It is true that in some mining fields the production is much more seasonal than the average for the United States would indicate. These fields produce on the whole but a fragment of the country's entire output of bituminous coal. Seasonal variation is particularly marked in the more westerly coal mining districts, where there is little industrial demand for coal. In these sections

the coal producer must rely for most of his business upon the demand from the householder. By far the greater part of his consumption of coal takes place in the Fall and Winter months and the operation of the mines reflects the demand from this class of consumer. The lignite fields of Colorado constitute an extreme illustration. Lignite is a popular domestic fuel in Denver, Greely, Ft. Collins and the agricultural section of Eastern Colorado, Western Kansas and Nebraska. But it is impossible to store lignite for any length of time. The domestic consumer demands the coal freshly mined. There is no practical price concession which will persuade him to undertake the storage of lignite in the Summer months for use in the Winter. Accordingly, as the mines in that field have only a very limited industrial consumption of coal in the Summer months, they are practically shut down for that entire period. In that district, therefore, the operation of the mines and employment therein is highly seasonal. The men who work there, however, find Summer employment on the farms, ranches and market gardens, on the irrigation works, in road building and other outdoor occupations which are carried on in the Summer months.

It is well here also to point out the fact that seasonal operation of these mines does not entail any burden upon the consumer of coal, as is often said to be the case. Coal from these mines, even when they are operated but six months in the year, is delivered to the consumer at a lower price than competing coal from more remote districts, even though such coal comes from mines which operate much more regularly, for these competing coals move on a higher freight rate. Thus, these seasonal lignite mines furnish the domestic consumer with cheaper coal than he obtains elsewhere.

The same thing is largely true of the mines in Iowa. There again the producer must rely largely upon household demand for the operation of his mines. As railroad and industrial business can be obtained in Summer months to operate only a few of the mines, the others are necessarily shut down. Their employes find work in agricultural pursuits, in tile factories, on roads and in other places during this period and come back to the mines in the late Fall and Winter. The Iowa coal does not store well, and the consumer insists on taking it when he can obtain it fresh from the mine. Even with the consequent seasonal operation of these mines he is able to purchase that coal at lower prices than he pays for competing coals from more distant mines which operate more regularly. These mines afford an economical supply of coal for the household consumer throughout that territory.

To a lesser degree, what has been said of the lignite fields of Colorado and the bituminous mines of Iowa applies to the mines of the Southwest and of Illinois and in some degree to mines in other sections of the country. In the great mining districts of the Appalachian fields, however, producing 65% of the country's total output, the mines are chiefly dependent upon industrial and railroad consumption. Such consumption varies but little from Summer to Winter. The slightly reduced demand in Summer is offset by Summer shipments up the Lakes and into Canada and New England for storage against Winter use, and the production of coal in these districts on the whole is fairly steady throughout the year.

There is much talk of stabilizing the operation of bituminous coal mines so that the production in all districts may be fairly uniform throughout the twelve months. The benefits to the mine operators, mine employes, transportation systems and the country generally are frequently mentioned as a reason for Government action, if necessary, to bring about this desired result. The benefits of steadier operation are of course perfectly obvious to the mine operator, the mine employe and the railway, but there seems to be a good deal of confusion as to how this result can be brought about. Most advocates of stabilization feel that all which is necessary is for the Government to require the producers to operate their mines regularly, as if operators did not already make every possible effort to operate their mines as regularly and as near full time as possible. It is perhaps appropriate, therefore, at this point to direct the attention of the committee to the salient facts which really determine the irregularity and fluctuating character of bituminous coal mine operation. Such operating conditions are due primarily to the consumer of coal. A bituminous coal mine runs not when the operator wants it to run, but when the consumer of its product wants it to run.

The United States Geological Survey published under date of February 15, 1920, some interesting charts of the seasonal character of coal consumption

by different classes of consumers. Permit me to direct the committee's attention to these charts. The largest single consumer of coal in the United States, the railroads, showed a variation in 1918 and 1919 from approximately 12,000,000 tons in June to 13,500,000 tons per month in mid-Winter. This shows a maximum Winter consumption approximately 10% greater than the minimum Summer consumption. It will be noted that the cement industry, foreign ship bunkers and exports (other than Canadian exports) required a greater coal movement in the Summer months than in the Winter. In the case of Canadian exports, the Summer months show a maximum movement approximately three times as great as the minimum Winter movement. While electric utilities show a slight decline in the Summer as compared with their Winter consumption, it is insignificant in the total. The really striking fluctuation is that in the consumption of the householder—the domestic consumer. From a Winter maximum of 10,000,000 tons per month his consumption drops in the Summer to but little over 2,000,000 tons per month. Here is a Winter maximum five times as great as the Summer minimum, as compared with only 10% variation in the case of the railways.

From these figures of the United States Geological Survey it is perfectly clear that anyone who proposes to stabilize the operation of the bituminous coal mines of the United States must stabilize the domestic consumer of coal. Stripped of all optimistic verbiage, such proposals analyze down simply to a proposition to persuade or compel the domestic consumer to take in his bituminous household coal in fairly regular quantities throughout the year. When proposals are being advocated to regulate the production of coal with a view to bringing about steady mine operation, it should be thoroughly understood that the real regulating is to be applied to the domestic user of the product.

Seasonal Freight Rates on Coal as a Stabilizing Factor

It is proper at this point to consider what means may be employed to equalize the shipments of household coal from the mines throughout the year. Seasonal variations in freight rates have been proposed for this purpose. The National Coal Association has neither advocated nor opposed this measure. Operators in some parts of the country favor seasonal freight rates; other operators oppose the project. It is claimed that a spread of this kind will induce enough householders to buy coal during the Summer so that the production of this type of coal and the operations of the mines producing it will be stabilized throughout the year. Opponents of this proposal assert that a very wide spread would have to be employed in order to bring about such a result in most districts because it would have to compensate the consumer for the additional expense entailed in carrying his coal supply for some months and overcome any degradation of the coal in storage. The opponents of this measure assert that in the mining districts which are in most need of Summer business, such as the Colorado lignite mines already referred to, or the mines of Oklahoma, Kansas, Iowa and Illinois, the coal deteriorates decidedly in storage even in the householders' cellars, and it would require wide differentials between the Summer and Winter rates on coal to induce sufficient Summer movement to make such a plan effective.

Opponents also point out that the increased railroad rates on this coal in the Winter time would have to be paid by those consumers who can least afford to pay the charges, namely: the poorer class, those householders and consumers who have neither the facilities nor the money to permit them to take advantage of the lower Summer rates on coal. Such a system, therefore, would simply penalize these poorer consumers of coal and benefit their richer neighbors at their expense. Railroad officials object that a decided change in freight rates on a given date would result in shipments being withheld just prior to a decrease in freight rates and an increase in shipments prior to an increase in rates, with a consequent irregularity of mine and railroad operation in the period immediately preceding or following the change in rates.

Seasonal Prices

It has been suggested also that producers of coal should make a difference in their prices, reducing the price levels in the Spring and gradually increasing them through the Summer, so as to persuade the consumer in that manner to take in at least a part of his coal supply during the Spring and Summer months, thereby stabilizing production.

It will be readily seen that much of what has just been said as to seasonal variations in freight rates applies here with equal force. In addition, it should be pointed out that the competition in the open market normally reduces prices to their lowest levels in the early Spring months when demand is at a minimum. Since bituminous coal prices are determined by competition in the open market the individual operator, or a group of operators, is no more able to arrange in advance a schedule of prices month by month throughout the year than a grower of hogs in Indiana can determine the price in advance at which he will sell his hogs in different months. It has been found possible for distributors of anthracite coal to put arrangements of this character into effect, but they are dealing with a commodity which can be stored readily and of which the production is limited, so that methods of marketing the output can be applied there which are wholly impracticable in the case of bituminous coal.

Storage of Coal

It is frequently urged that the coal producers should store a part of their output at the mines in Summer and thus render the operation of their properties more stable and regular. This proposal has the defect of being impractical. Coal mines are organized, equipped and operated to send coal forward on a continuous journey from the face of the coal seam to the boiler room of the consumer. The production, transportation and distribution of that coal is obtained at the most economical cost when that movement is uninterrupted. As it comes from the mine wagons underground coal is dumped directly into railroad cars and shipped straight through to the plant or retail yard of the buyer. That is the most economical manner in which the coal can be produced and moved. If it is moved two or three miles from the face of the coal seam underground out into the daylight at the mouth of the mine and there dumped on the ground or put into storage bins there is an increase in the cost of the coal consequent upon its being placed in storage and taken out again.

There is also a certain degradation and deterioration of the product in storage, so that this stored coal would have to be sold by the producer who had stored it at a higher price than his freshly-mined coal, if he is to avoid a loss on the operation. But this stored coal for which he must ask a higher price is a less efficient and less desirable fuel than his freshly-mined coal which his salesmen can offer at a lower price. If he should attempt to equalize his prices or place a sufficient premium upon his freshly-mined coal to allow him to sell his higher cost storage coal at a discount he will merely invite numerous competitors to take his business away from him through their offers of freshly-mined coal at prices below his quotations. In short, a producer who would store considerable quantities of his own coal at the mines would inevitably find himself caught between the competition of his own freshly-mined coal and his storage coal and must accept an inevitable loss on the transaction in consequence. No sane busines man will attempt any such enterprise, nor would he get any sane banker to finance it even if he were foolish enough to try it.

The proposal is impracticable for another reason. The mines already open have an over-capacity of approximately 40%. In other words, these mines can currently furnish 40% more freshly-mined coal than the country needs. In the absence of strikes at the mines the only thing which has ever prevented the mines from meeting all demands of consumers with current daily shipments of freshly-mined coal direct from the mine tipples has been the inability of the railway lines to transport the tonnage demanded by consumers. These consumers have never failed to get their coal, because of inability of the mines to produce it, but only through the inability of the railroads to handle it when shipped. Now if the railroads in time of maximum demand are not able to place railroad cars enough at the mines to carry away the coal they are mining from day to day, what opportunity would a mine operator have to obtain cars to take coal from storage in addition to shipping his usual daily output?

As a matter of fact, there is already a tremendous storage of coal in the United States, not in the mining districts, but where the storage ought to be, namely: in or adjacent to the consuming centers. Consumers and wholesale and retail distributors of coal in the United States have provided facilities in which they regularly store from 40,000,000 to 50,000,000 tons of coal annually. Just prior to the signing of the Armistice they had stored over 60,000,000 tons of coal, and at the beginning of the present strike they had utilized these facilities to store approximately 65,000,000 tons of bituminous coal in addition to

the amount upon the docks at the head of the lakes. If the capacity of those docks is included the total possible storage by consumers and distributors of coal in the United States exceeds 70,000,000 tons. This is practically all storage by the consumers, who own these great stocks and are, therefore, insured against any raising of prices on this tremendous tonnage. Storage of this kind has developed wherever it is practical; that is, wherever the service to the user of the coal in actual practice justifies the investment and the expense of installing and operating the facilities for storage and compensates him for the deterioration of the coal.

Nationalization of the Mines is no Remedy

Mr. Lewis seriously proposes that the Government should own and operate the bituminous coal mines as a means of stabilizing production and improving the lot of coal mine employees and coal consumers. I shall not burden the committee with a discussion of a proposal so plainly inadequate and impractical. Would the United States Government require every household consumer to take in designated quantities of bituminous coal for domestic use at regular times throughout the year whether the consumer wanted that particular kind of coal or not; whether he was willing and ready to pay for it or not, and whether he had the facilities to store it or not? Would they require industrial consumers of coal in periods of business depression such as that which is now afflicting the country to buy the quantities of coal they normally require, in order that the mine employes may have work regardless of whether the factory could use the coal or not? If the mines are to be stabilized by this process, the consumer of coal will soon beg to be nationalized in self-defense.

With reference to the cost of producing coal, there should be no delusions whatever about what would happen under Government operation of mines. We have had a splendid object lesson of the efficiency of Federal management in the case of our railroads and our ships. But railway lines and services are in plain sight on top of the ground and ships are equally in plain sight on top of the water, so that inefficiencies in the operation of such enterprises are plain in the sight of those who use them or are in contact with them. On the other hand, the mining of coal is conducted underground in the dark out of sight of the consumers of the product. The investment there is subject to constant danger and rapid deterioration. The operation requires the utmost watchfulness and care on the part of everyone charged with responsibility in order to maintain the property of the company and safeguard the lives of the employes. What conditions would inevitably prevail if the care and management of such an enterprise were left to the discretion of a Government employe who had no investment of his own in the property? Who can estimate the waste and loss which would result; the millions which would be piled on the cost of coal annually and the added danger to life and limb below ground under these conditions? If the Government owned the mines today and was charged with their operation it could do no more than the private operator has done towards obtaining employment for the men at the mines or running the mines more regularly, unless it required the consumer of coal to take in the output at those mines without regard to his immediate need or desire for the product. If Government authority has the power and the willingness to enforce such requirements upon consumers of coal then the Government can stabilize the operation of the mines without burdening itself with the added task of owning and operating them under any nationalization scheme, and if it is not willing to enforce these requirements upon consumers then nationalization and Government operation as a means of stabilization are foredoomed to failure from the outset.

Transportation Charges

The transportation charge on bituminous coal is the principal item in the cost of distribution to the consumer. According to the testimony of George M. Shriver, vice-president of the Baltimore & Ohio Railroad, before the Interstate Commerce Commission, the average railroad transportation charge on bituminous coal in the United States is $2.27 per ton, which represents an increase over the general level of charges in 1913 of nearly 100%. The minimum rates on bituminous coal are now about 90 cents per ton for hauls of 10 to 30 miles, and the maximum charges are more than $7.00 per ton from the mines in Utah and Wyoming to the Pacific Coast.

The committee has requested information with respect to the delivered

prices of bituminous coal in a number of different localities, having special reference to coal for household consumption. I have, therefore, prepared a table giving this information, analyzing the delivered price. The table covers the cities of Atlanta, Cincinnati, Cleveland, Chicago, Indianapolis, Pittsburgh, Washington, Kansas City, Missouri, San Francisco, Dallas and La Crosse. It gives the average local retail price in January, 1922, for bituminous coals of different kinds which are sold in each community as reported by the Bureau of Labor Statistics, as compared with the f. o. b. mine prices of these same kinds of coal in the same month as quoted in leading coal trade journals, and the freight rate on each kind of coal from the shipping points to these respective cities. The table follows:

LUMP COAL—NET TONS

Point of Shipment	F. O. B. Mine Price	Frt. charges to Destination	Consuming City	Mine price plus freight	Retail price Jan., 1922, as reported by Bureau of Labor Statistics
Birmingham, Ala.	$2.75	$2.12½	Atlanta, Ga.	$4.87½	$7.192
Western Ky.	2.75	2.15	Cincinnati	4.90	
Pocahontas, W. Va.	3.00	2.20	Cincinnati	5.20	7.00
Harlan, Ky.	2.55	2.00	Cincinnati	4.55	
Hocking, Ohio	2.90	2.38	Cincinnati	5.28	
Ohio No. 8	3.50	1.89	Cleveland	5.39	
Pocahontas, W. Va.	3.00	2.86	Cleveland	5.86	8.139
Southern Ill.	3.55	2.17	Chicago, Ill.	5.72	
Belleville, Ill.	3.00	2.06	Chicago, Ill.	5.06	
Clinton, Ind.	3.65	1.78	Chicago, Ill.	5.43	8.906
Pocahontas	3.15	3.58	Chicago, Ill.	6.73	
Northern Ill.	4.50	1.54	Chicago, Ill.	6.04	
Hocking, Ohio	2.90	2.55	Indianapolis	5.45	
Pocahontas, W. Va.	3.00	2.90	Indianapolis	5.90	7.55
Hazard, Ky.	2.55	2.55	Indianapolis	5.10	
Clinton, Ind.	3.00	1.26	Indianapolis	4.26	
Burgettstown	2.25	.98	Pittsburgh, Pa.	3.23	
Carnegie	2.25	.84	Pittsburgh, Pa.	3.09	6.787
Shire Oaks	2.25	1.07	Pittsburgh, Pa.	3.32	
New River	3.00	2.83	Washington, D. C.	5.83	
Somerset	3.00	2.83	Washington, D. C.	5.83	8.12
Georges Creek	3.00	2.83	Washington, D. C.	5.83	
Southern Kansas	5.00	1.89	Kansas City, Mo.	6.89	
Springfield, Ill.	3.15	2.63½	Kansas City, Mo.	5.78½	8.669
Rock Hill, Mo.	4.00	1.62	Kansas City, Mo.	5.62	
Spadra, Ark.	9.00	3.64½	Kansas City, Mo.	12.65	17.07 to 18.00
Castle Gate, Utah	4.00 to 5.00	7.25	San Francisco	11.25 to 12.25	19.25
Spadra, Ark.	9.00	3.78	Dallas, Texas	12.78	18.25
			All rail		
Duquoin, Ill.	3.55	3.58	La Crosse, Wis.	7.13	
Springfield, Ill.	3.15	3.17½	La Crosse, Wis.	6.32½	11.70
Northern Ill.	4.50	2.63½	La Crosse, Wis.	7.13½	

	Via Lakes			Frt. by rail from Green Bay or Milwaukee		
	Frt. to Lower Lake Ports	Frt. across Lake	Handling over dock			
Pocahontas	3.00	2.26	.58½	1.00	2.43	9.27½ 11.70
Ohio No. 8	3.50	1.83	.58½	1.00	2.43	9.34½

While the table speaks for itself, it is appropriate here to call the attention of the committee to the figures for one city in order to make clear what they indicate. Take Cleveland, for example. The domestic consumer there was buying Ohio No. 8 lump coal at an f. o. b. mine price of about $3.50 per ton, on which the freight rate to Cleveland was $1.89, making a cost f. o. b. Cleveland of $5.39 per ton to the retail dealer. At the same time he was buying Pocahontas lump from Southern West Virginia at $3.00 per ton, upon which the freight rate to Cleveland was $2.86, making a delivered cost f. o. b. Cleveland for that coal of $5.86. Unfortunately the Bureau of Labor Statistics does not distinguish between different kinds of bituminous coal in its price statistics, but gives a single average for the retail price of all kinds of bituminous coal sold in each city. The figure they give for Cleveland is $8.139. This would indicate a retail margin of $2.749 in the Ohio No. 8 coal and $2.279 on the Pocahontas coal. It is likely, however, that the Pocahontas coal was sold at a higher price than the Ohio coal.

The committee will understand that the National Coal Association has no information whatever as to the cost of doing a retail coal business nor any information as to the margin of profits of the retail coal dealers. The committee can doubtless obtain information of that character from the retailers direct.

The committee should understand distinctly that a part of the high price of household bituminous coal is due to the demand of the consumer for the

highest grade of lump coal. Attention has already been directed to the wide difference in quotations for bituminous coal f. o. b. the mines. In the case of Southern Illinois the prices ranged from $1.85 per ton for screenings to $3.65 per ton for the finest grade of domestic lump coal. When the coal producer screens out of his product the larger lumps and grades them into regular market sizes he thereby reduces the market value of the remainder of his product which is composed of the smaller pieces of coal. As a greater and greater proportion of the larger pieces are screened out and finer and finer coal remains, the less is the market value of the resultant screenings. Thus, the operator who is preparing coal for the retail household trade must expect to sell his screenings at heavy discount in the market. He will nearly always have to sell this part of his product at a decided loss under the average cost of producing all his coal. Such screenings make up from 25 to 40 percent. of his total output. The larger size lumps may comprise but 10 to 25 percent., the intermediate sizes making up the balance. The larger lumps will sell at the highest price, the intermediate sizes for less and the screenings for least of all. What he loses on the screenings, he must make up in a higher price on the high-grade lump coal which the domestic consumer demands, otherwise it will not be profitable for him to make this domestic lump and it will not be offered on the market.

To make this entirely clear to the committee, permit me to use a concrete illustration of a mine producing 20 cars of coal per day. Let us assume that it costs the producer $2.50 per ton to mine his coal, or $2,500 for his output of 20 cars. When he prepares this coal for the retail trade let us assume that out of the 20 cars produced during the day he gets 5 cars of larger size domestic lump, 8 cars of intermediate prepared sizes and 7 cars of screenings. He finds that he can obtain $1.50 per ton in the market for the 7 cars of screenings. These 7 cars will then sell for $525.00. For the 8 cars of intermediate sizes he finds that he can obtain $3.00 per ton, or a total of $1,200 for this portion of his output. To equal his total production cost of $2,500, he must charge $775 for his 5 cars of domestic lump coal, or a price of $3.10 per ton. But this price of $3.10 will leave him no profit on the day's business at all; it will merely meet his expenses. With the price on his screenings fixed by the competition of mine run steam coal and the fine sizes of other operators in the open market and with the price of his intermediate sizes fixed by competition from mine run coal and from the large supply of similar small sizes produced by other operators serving the domestic trade, the only part of his output on which he can charge an additional price with any hope of getting it is his high-grade special domestic lump. If he is to realize a profit of only 20 cents per ton on his total output of 20 cars he must increase the price of this domestic lump coal from $3.10 to $3.90 per ton.

It may be argued that the railroad or electric light plant or manufacturing plant which buys these screenings at a low price can better afford to pay a high price for its fuel than can a householder. This may be entirely true, but in the face of competition in the coal market the producer is just as powerless to compel that public utility or manufacturer to pay a high price for his low-grade screenings as a Missouri farmer is powerless to compel a St. Louis householder to pay the same price for skim milk as for cream. Therefore, the domestic consumer starts by requiring a service in connection with the preparation of his coal for which he must pay a premium. In fact, he demands the cream of the coal and then too often wonders why he can't buy it at the skim milk price.

The table shows in detail the various prices prevailing in the different markets for the particular kinds of domestic lump coal used by household consumers in each city. I will be glad to give the committee any further information in detail with respect to this table or any other phase of this subject which the members may ask to have.

A Bill to Establish a Coal Investigation Agency

Since the National Coal Association has nothing to do with labor matters or wage scale negotiations, so far as the bill now pending before this committee deals with matters of that nature, I shall express no opinion. So far as it deals with the proposed establishment of a Government agency for collecting detailed information in regard to the bituminous coal industry, I am not in a position to express officially the judgment of the Board of Directors or members of the National Coal Association, since we have not had time for

sufficient consideration of the measure on which to base such a judgment. I have no hesitancy, however, in advising the committee that in my own personal opinion the bill contemplates a needless duplication of effort on the part of the Government. So far as information may be needed by Congress I believe that existing agencies can furnish all that is desired. The Directors of the National Coal Association have offered the Secretary of Commerce their cooperation in providing him, the Government and the general public voluntarily with details of production and distribution of bituminous coal. We are advised by counsel that he has sufficient authority to obtain this information, if he is given an adequate appropriation to enable him to tabulate it and make it public. Therefore, it seems to me that there is no particular need for the creation of an additional Government agency, with its added burden of expense, to duplicate the work of existing agencies which can obtain and publish such information much more economically than can be done through this proposed coal investigation agency.

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